



The WEEKLY SUMMARY, issued every Friday morning by the Office of Current Intelligence, reports and analyzes significant developments of the week through noon on Thursday. It frequently includes material coordinated with or prepared by the Office of Economic Research, the Office of Strategic Research, and the Directorate of Science and Technology. Topics requiring more comprehensive treatment and therefore published separately as Special Reports are listed in the contents.

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### INDOCHINA

#### VIETNAM: PREPARING FOR A CEASE-FIRE

Amid intense speculation in Vietnam that a cease-fire is coming soon, indications from a variety of sources show the Communists keeping their forces in a position of readiness for a possible military push just before a cease-fire comes into effect. They apparently anticipate a period of uncertainty and confusion accompanying the cease-fire among the populace and some government military forces and hope to take advantage of it. If a cease-fire occurred around or in the period of the lengthy Tet festivities in early February, the Communists probably would count on the government's guard being lowered even further. The enemy motive would be to strengthen its territorial position in advance of a stand down by the military units of both sides.

populated areas that provide lucrative targets, rather than to pull back into deep base areas.

In northern South Vietnam, the combat potential of Communist forces just south of the DMZ is probably higher than at any time since early last summer. In the central highlands, the Communists have recently carried out limited offensive operations and, after achieving some of their objectives, are probably not in a position to mount a high level of operations any time soon. Along the central coast, Communist main force units have probably recovered somewhat from losses suffered last summer and could undertake a fair level of operations. In Military Region 3, Communist forces are probably, on the whole, no stronger than they were at the time of the October offensive. In the delta, enemy forces have been attempting to refit

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Despite the scope of these preparations, it is hard to predict just how strong an offensive the Communists may attempt in conjunction with a cease-fire announcement.

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Much of this materiel is doubtless needed to replace stocks lost in the course of the Communist offensive in 1972. It could also be intended to pad the level of equipment and supplies, in case these levels are frozen in connection with a cease-fire, but the materiel, along with this dry season's infiltrators, will bolster the Communists' ability to mount and sustain major operations over the near term. With little combat activity during the past several months, many enemy main force units have been actively engaged in resupply and refitting operations. The main forces have attempted throughout most of the country to maintain field positions near

It seems most likely that the Communists would like to launch countrywide attacks on a level well above those of last October, but short of an all-out offensive. The Communists realize that they must preserve much of their strength for the post - cease-fire period, or risk being gradually overcome by the government.

Although the Communists probably could not overrun any major population centers, some district capitals and a variety of villages and hamlets near Communist strongholds are vulnerable.

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Rather than direct, heavy assaults along the lines of the 1972 offensive, the Communists might well attempt to break down some of their main forces into small elements for use with the Viet Cong in local attacks. Small-scale but widespread assaults, backed by artillery, against lightly defended population centers and government installations could complicate the government response.

In the face of strong South Vietnamese counteraction, it is questionable how long the Communists could hold any territorial gains. In their premature October offensive, they were unable to retain overrun areas for longer than a few days when challenged by government forces. Moreover, the Communist ability to sustain any new offensive will certainly be less than during their spring offensive in 1972. It is evident that the Communists will be trying to tie any operations very closely to the actual implementation of a cease-fire, hoping thereby to deter government efforts to retake lost ground after the truce goes into effect.

For their part, government forces now appear to be in a significantly stronger combat position than in October. The army has made good most of the manpower losses it sustained during the 1972 spring drive, and has gone over to relatively aggressive combat operations in several key sectors of the country. The most important government gains have come in the far north where, despite the enemy rebuilding effort, Saigon's forces have pushed the Communists back from positions that provided access to the populated lowlands. These operations have kept the enemy on the defensive and doubtless will hinder any offensive in connection with a cease-fire.

The South Vietnamese are well aware of the possibility that the Communists may try a cease-fire offensive, and they have arranged their forces with considerable care. Nevertheless, the Communists are in a position to cause substantial trouble.

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#### REBELS, ROADS, AND RIVERS

After two years of combat, military initiative in Cambodia remains firmly in the hands of the insurgents. In the past two weeks, the tempo of the fighting has picked up considerably, and as usual, the Communists are responsible. Beginning on 1 January, predominantly Khmer Communist forces attacked a series of government positions along the two main highways south of Phnom Penh.

One of the roads—Route 2—is once again closed between the capital and Takeo. Government operations are under way to clear it, but progress is slow. The government has fared better in its efforts to drive the Khmer Communists away from Route 3, in the vicinity of the town of Tram Khnar. To the west, Communist harassing attacks have prevented Cambodian reinforcements from reaching the isolated town of Srang.

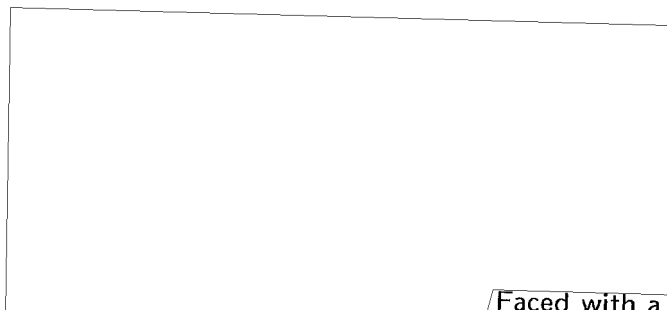
Having engaged the government's military attention in the south, the Communists launched some attacks in the Phnom Penh region. Insurgent elements attacked Cambodian positions on Route 1 and forced government troops to fall back toward their Mekong River base at Neak Luong. At the same time, the Communists also drove government troops from a number of small outposts on the east bank of the Mekong below Neak

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Luong. The attacks along Route 1 were the most significant in the area since last October, when the Communists thwarted government efforts to reopen a short stretch of this highway.

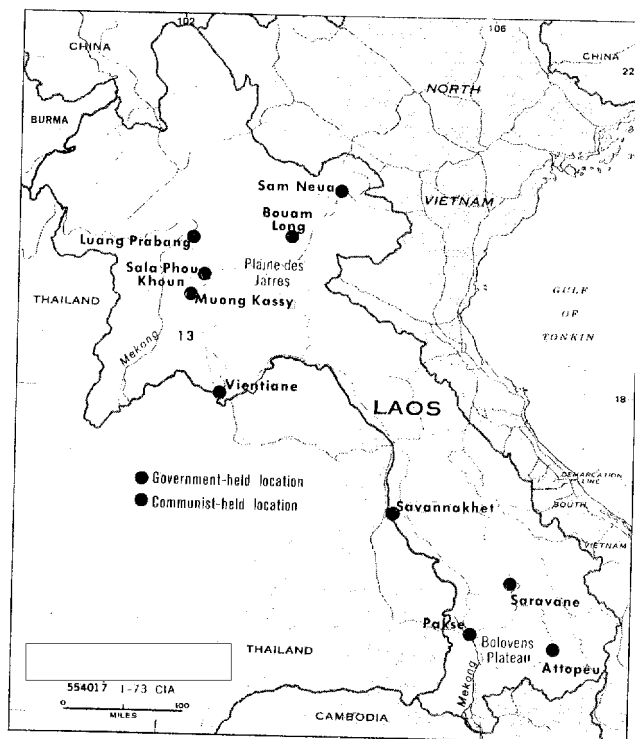


Faced with a serious threat to its vital river supply line from South Vietnam, the government moved quickly to clear both banks of the river below Neak Luong. By midweek, government units had reoccupied all of the abandoned positions and begun to refortify them.

The upsurge in Khmer Communist activity is designed in large part to demonstrate their increased military prowess and underscore the Cambodian Army's various deficiencies. The Khmer Communists cannot stay on the attack indefinitely. Besides the casualties it has produced, the present campaign has also put some strain on the Communists' logistical resources. The insurgents will undoubtedly have to withdraw to rest and refit—as they have in the past.

#### LAO PEACE TALKS LIMP ALONG

Lao Government and Communist negotiators played another round of diplomatic charades at the session of the Vientiane peace talks this week. They were obviously waiting developments on a possible Vietnam settlement, and both sides avoided talking about specific negotiating points. The Communists used their time to castigate the US, and government representatives responded by denouncing North Vietnamese intervention in Laos. Immediately after the meeting, five of the Communist negotiators, including delegation chairman Phoune Sipraseuth, left for Sam Neua via Hanoi for consultations. They are expected to return to Vientiane for the next regular session of the talks on 23 January.



#### The Military Scene in Laos

Government units that retreated from Saravane last week in the face of heavy North Vietnamese attacks are now regrouping for another effort to retake the southern provincial capital. The arrival of additional irregular and Lao Army troops has swelled government strength in the area west of Saravane to over 3,000. Despite continued air strikes, the Communists are maintaining a large force near Saravane.

In the north, Lao Communist troops still control Route 13 for some distance north and south of the road junction at Sala Phou Khoun. In a rare use of armor late last week, the Communists sent two tanks as far south as the airstrip at Muong Kassy before government troops could destroy them. Lao Army commanders are under considerable pressure from Vientiane to redress the situation along Route 13, but so far have failed to generate any sort of a move back toward Sala Phou Khoun.

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## CHINA: IN LEAGUE WITH THE PARTY

A recent issue of an English-language publication from Peking featured photo coverage of a successful operation in which a severed right foot was rejoined to a left leg. A similar operation is now under way in the political sphere as Peking tries to rejoin the "helping hand of the party," the Young Communist League, to the parent organization.

Apparently in response to a directive from Peking, party organizations in the provinces are making preparations to re-establish Youth League committees at the provincial level. According to a number of provincial radio broadcasts, the operation is scheduled for completion "around 4 May," presumably to mark the anniversary of a youth movement on that date in 1919.

Dismantled along with the parent party apparatus during the Cultural Revolution, the Youth League has been slow to rebuild. An effort to reconstitute the league at the grassroots level was begun last spring, but it foundered in the face of more pressing political problems. As a number of military province chiefs came under fire and dropped out of sight in the wake of the Lin Piao affair, the task of rebuilding the league—always a low priority item—was quietly shelved.



This time, the campaign seems to be under way in earnest. Radio broadcasts have announced unusually specific guidelines, setting age limitations on league members—the problem of over-age members has long been a touchy one—and attempting to work out a modus vivendi with the Red Guards, the youthful activists unleashed against the establishment during the Cultural Revolution. A loosely structured Red Guard organization exists despite earlier signs that it would dwindle away once the league was re-activated. Red Guards have been invited to attend league meetings as "observers," but their status varies in each area. Shantung Province, for example, has invited 50 Red Guard observers, while the activist stronghold of Shanghai plans to seat as many as 300 non-voting Red Guards.

By reasserting control over the league, the party hopes to channel youthful energies toward party-directed goals. The move is unpopular in some official circles. Radical elements see the league as a device to contain the enthusiasm and idealism of youth, "special characteristics" that should be left relatively free from organizational discipline. Moderates insist that the truly special feature of young people is their inexperience, and the moderates view the league as the instrument to lead youth to the appropriate political maturity, under firm party guidance.

the party has launched a "youth education campaign," suggesting that the moderates currently have the upper hand.

Reactivation of the party's youth auxiliary is likely to provide some outlet for the chronic discontent among young people, especially those forced to live and work in rural areas. Although they will not be happy with the reimposition of discipline that league membership brings, young Chinese probably still view the Youth League as one of the best avenues toward advancement.

## US TRADE ON THE WAY UP

The combination of intense interest generated by President Nixon's visit to the People's

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Republic of China, the gradual removal of political and legal barriers to trade, and the work of Mother Nature that caused China to buy US grain has resulted in a jump in China-US trade from \$5 million in 1971 to an estimated \$90 million in 1972.

Over 100 different Chinese products worth about \$33 million were brought into the US in 1972. About half of the imports was food and crude materials, mainly hog bristles, raw silk, and spices. The other half consisted of a wide variety of light manufactured goods—such as fabrics, clothing, and works of art.

A few large deals, mostly grain, accounted for most US sales.

By the end of August, less than \$750,000 worth of US goods had been exported to China. Then a shortfall in the Chinese grain harvest, the Canadian dock strike, and a world-wide grain shortage made it necessary for China to buy US wheat and corn.

Sino-US trade in 1973 should take another jump to possibly \$250 million and place the US well up among the leading Chinese trading partners. Chinese sales to the US through 1973 may reach about \$50 million for the year. US exports, on the other hand, could be in the neighborhood of \$200 million.

Communist Radiophoto



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### PHILIPPINE PRESTIDIGITATOR

Last fall, when President Marcos proclaimed martial law and the advent of a bright "New Society," some of his more politically sophisticated countrymen described it as a warm-up for tougher acts to follow. Their cynicism about Marcos' ultimate goals was reinforced this week, when he again dipped into his political bag of tricks and produced new measures designed to perpetuate his rule indefinitely.

Stung by growing criticism of the aging "New Society," the President coined some new "people's revolution" rhetoric and concocted new ad hoc political structures called "citizens' assemblies." After holding a series of rigged consultations with the assemblies, Marcos announced on 17 January that they had approved his new constitution. He added that the assemblies had called for martial law to be continued for several years, thereby postponing the implementation of the new constitution's parliamentary system.

Marcos has signed the new constitution, and he will now assume the expanded powers it grants to the chief executive under a transitional government. He will not, however, convene the interim National Assembly provided for in the constitution. Instead, he evidently intends to rely on the citizens' assemblies. He has already stated that a national-level "People's Revolutionary Congress," which was attended last weekend by some 4,500 officials and civic leaders, will work with him as the highest consultative group on local and national issues. It will also formulate the guidelines for the citizens' assemblies. This network of powerless town meetings clearly was fashioned to provide a facade of popular participation in presidential decision-making.

Thus far, Marcos has encountered little difficulty in carrying out his plans to concentrate power in his own hands. Opposition party members made a symbolic last ditch effort against Marcos by asking the Supreme Court to nullify the decisions of the citizens' assemblies on the grounds that they were not constitutional bodies. The court has demurred from making a judgment,



because recent events have placed it in an awkward position. Technically, the old court system carries over virtually unchanged under the new constitution, but Marcos, as "prime minister," has the power to change court membership if he wishes.

Despite Marcos' unqualified success in manipulating people and events in order to secure total power, he remains concerned about possible opposition. In preparation for an adverse public reaction to the most recent manipulations, Marcos has placed the armed forces on alert and prepared a contingency plan for establishing a military junta should serious open resistance develop.

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## TAIWAN: A GROWING ECONOMY

Taiwan's economic performance last year was one of the best on record, and the outlook for this year is equally bright. Real economic growth of over 11 percent came on the heels of similar advances in the preceding two years. Gross national product rose to \$7.2 billion, and per capita income topped \$370, among the highest in the Far East. A rapid growth in exports, a high rate of investment, and continued industrial expansion all contributed to this success.

Exports rose 47 percent to about \$3.1 billion, producing an estimated \$280 million trade surplus. This record helped boost Taiwan's foreign reserves to an estimated \$750 million—equivalent to almost four months' worth of imports. The leading export items—textiles and electronics—scored major gains. The US remained Taiwan's leading trade partner, and bilateral trade rose more than 40 percent. The trade surplus with the US rose to about \$400 million, up a third compared with the previous year.

Despite Taiwan's attempts to reduce its reliance on Japanese products, Japan was the leading source of imports and Taiwan's second most important trade partner. Taipei's continued efforts to diversify its trade resulted in sharp gains with the EC, especially West Germany, and Canada.

Industrial output, paced by textiles and electronics products, was up a record 26 percent. Capital investment grew sharply, reflecting the fact that foreign investor confidence stayed high. Most overseas investors, including a few Japanese firms, proceeded with their plans. The value of government-approved new investments was not far below 1971's record level. New US investment approved by Taipei marked a yearly high

Taipei hopes to bring the rate of inflation—which rose to about 5 percent in 1972—under 3 percent by increasing imports of items for which demand is high. Rising wages, exports, and capital inflows could, however, strengthen inflationary pressures. [REDACTED]

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### POMPIDOU

#### AT BREZHNEV'S DACHA

President Pompidou and party chief Brezhnev ranged across the international spectrum during their two-day meeting last week at a secluded dacha outside Minsk. Although they found themselves in agreement on a number of issues, the timing of the meeting was probably more important for both than any specific business they may have transacted.

The talks focused on Europe, and the substantive highlight was an exchange of views on a European security conference and mutual force reductions. Both reiterated long-held views that progress on a security conference should not be linked to the course of any other negotiations, i.e., the force reduction talks. Advancing his suggestion last month that Moscow was flexible on Western proposals for the security conference, Brezhnev indicated the Soviets would accept a separate agenda item on "cultural questions." He offered the first Soviet acceptance of including on the security conference agenda confidence-building measures such as notification of military movements. In one of the few areas of disagreement, Brezhnev urged the French to take part in the force-reduction negotiations. He may have made some impact because Pompidou told the press later, "We have agreed that we will speak

about it again." A French volte-face on this issue is not likely in the near term.

The leaders also touched on economic relations. They reaffirmed the goal of doubling Franco-Soviet trade during 1970-74 and promised that agreements to implement existing understandings on various cooperative ventures will be signed soon. Pompidou also promised to review and consult further on the Soviet bid for direct contacts between the European Community and East Europe's Council for Economic Mutual Assistance—something Moscow strongly desires in order to prop up CEMA.

The two leaders found themselves in close agreement on Vietnam and the Middle East. The communique treated the former in non-polemical fashion and emphasized the need for a rapid settlement. It was thus in line with earlier Brezhnev remarks on the improved prospects for resolution of the Vietnam problem.

From the Soviet standpoint, the visit and the attendant publicity demonstrated the continuing vitality of the special relationship with France, which is consistently cited as the best example of how the nations of Western Europe ought to behave internationally. For Pompidou and the Gaullists, the visit could help in what is looming

as a difficult campaign against the left coalition that includes the Communists. French Communist leader Marchais complained about the timing of the visit when he had his turn with Brezhnev last month, but the Soviets have made it clear that developing the relationship with the Gaullist government takes priority over assistance to the French Communist Party.

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Brezhnev and Pompidou in Minsk

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### USSR

#### LUNOKHOD ROAMS AGAIN

Early this week, the Soviets successfully landed another rover vehicle, Lunokhod-2, on the moon's surface. The new rover is expected to operate for several months and to continue the exploration program conducted by Lunokhod-1 in 1970 and 1971. The Lunokhod landing is the latest in the series of unmanned lunar missions that the Soviets have been conducting for the past several years. No Soviet attempt at a manned lunar landing is likely before the end of the decade.

Lunokhod-2 was carried to the moon aboard Luna 21, a space probe launched from Tyuratam on 8 January. The landing occurred on 15 January in the Sea of Serenity, about 140 miles from the area of the Apollo 17 mission last month. Shortly after the probe landed, the new rover rolled down a ramp onto the moon carrying a Soviet flag and a likeness of Lenin.

The Soviets have released little information about Lunokhod-2. It is believed to be similar to the eight-wheeled Lunokhod-1, although it apparently weighs almost 200 pounds more. Like this predecessor, Lunokhod-2 will be driven remotely from a ground station in the Soviet Union and will operate only during 'lunar days,' which last about two weeks.

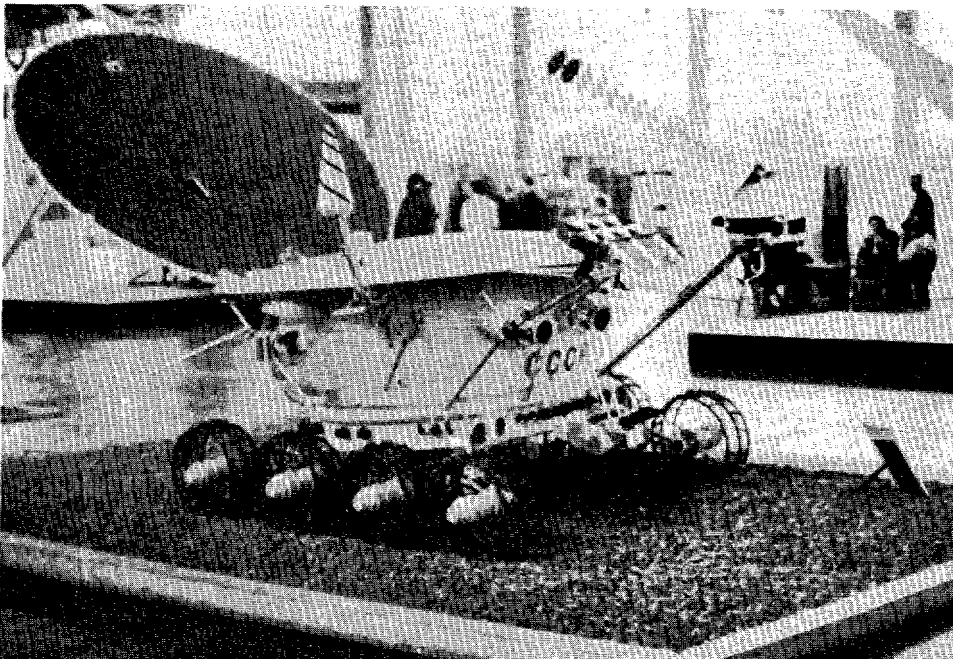
According to TASS, Lunokhod-2 will continue but not duplicate the work of the first

moon rover. The earlier vehicle transmitted pictures back to earth and conducted several scientific experiments, including some to determine the properties of lunar soil. Lunokhod-2 probably will carry out similar experiments, although the additional weight suggests that new programs have been added. Like the first Lunokhod, the second rover carries a French laser reflector that will be used to measure distances between the earth and the moon. The active life of Lunokhod-1 was more than ten months—far exceeding Soviet expectations—and the new vehicle could operate for about the same length of time.

The Lunokhods are part of the Soviet program of unmanned lunar research that has been under way since 1958. In addition to the rover vehicles, this effort has included experiments conducted from lunar orbit and two missions that returned a few ounces of lunar soil. The Soviets are not expected to attempt a manned lunar landing until at least the late 1970s

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Model of Lunokhod-1

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**SECRET****THE CEMA INVESTMENT BANK**

Loans totaling some \$400 million have been provided for at least 26 projects by the International Investment Bank, which began operations in January 1971. The funds, designed to help finance projects fostering production specialization within the nations of the Council for Mutual Economic Assistance, have all been allocated to East European countries. For its part, Moscow has continued to use bilateral agreements with East European countries to secure funds for the development of natural resources that play a major role in its trade with Eastern Europe.

The bank's total authorized capital is \$1.3 billion—70 percent in rubles transferable among members, the balance in hard currency. About one third to one half of the subscription reportedly had been paid in by the end of 1972.

Applications for loans have apparently outstripped available funds. During the first full year of operation, the bank authorized loans of \$219 million in transferable rubles and \$68 million in hard currency in support of 16 projects. Actual disbursement has been less, as many of the loans will be drawn down over a period of several years. In 1972, at least ten new projects were approved, involving over \$100 million in bank funds. All 26 projects financed by these loans are in Eastern Europe. Most of the loans will augment domestic investments to modernize and expand manufacturing facilities.

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*...PROBABLY ONLY A MATTER OF TIME BEFORE THE BANK SEEKS LOANS FROM THE WEST.*

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Thus far, the bank has apparently not sought funds in Western money markets, although it is permitted by its charter to do so. Given the need for Western equipment and technology, the type of investment projects being financed, and the paucity of hard-currency holdings by the member countries, it seems only a matter of time before the bank seeks loans from the West, particularly on the Eurodollar market.

**MALTA: BREATHING SPELL**

Prime Minister Mintoff eased the tension somewhat by agreeing to accept both the 1 January base rental payment from the British and the supplemental payments from the allies. If all goes well, the base pact will remain in full force until the end of March, and British troops can carry on business as usual. The UK and Malta still have some bilateral issues to discuss, and Mintoff has adjourned parliament until 29 January, thereby giving himself more latitude in these dealings and more freedom to travel abroad for talks.



**Dom Mintoff**

*Likely to be recalcitrant*

In the coming weeks, Mintoff will probably focus his attention on the British, although he will continue to press the other allies for guarantees against future devaluation losses. At the first British and Maltese discussions of bilateral issues last week, Valletta chose to deal primarily with Maltese personnel working at British facilities. Mintoff said he was "totally unsatisfied" with the results. The British high commissioner has opined that Mintoff will continue to be recalcitrant and will try to escalate these meetings to the ministerial level.

In a late note to Prime Minister Heath, Mintoff suggested that he would propose ways the UK could meet Malta's "just demands without creating awkward precedents." Although Mintoff's colleagues have not explained what he meant, there are several possibilities. Mintoff

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would like the British to follow the allies' lead in compensating him for losses caused by the sterling float, and the Maltese governor general recently proposed just such a move. London steadfastly refuses to do so.

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From London's point of view, Mintoff is up to his old tricks of dragging out negotiations in the hope of extracting still more from the British and other donors. As in the past, he gives every evidence of being unable or unwilling to arrive at a clear-cut solution. The Maltese leader does seem to thrive on this sort of hue and cry, and, if the base agreement runs its full term, the British and the allies can count on recurring periods of tension.

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#### ICELAND: BASE TALKS TO BEGIN

Foreign Minister Agustsson is slated to lead an Icelandic delegation to Washington next week for preliminary talks on the Keflavik base agreement. The visit ostensibly is to acquaint Agustsson with the importance of the US-manned NATO base so that he will be able to rebut left wing critics, who advocate complete US withdrawal.

Agustsson is under considerable pressure within the three-party coalition despite the numerical preponderance of his Progressive Party. The other two partners—the Communist Peoples Alliance and the Organization of Liberals and Leftists—have brought the coalition to the verge of collapse on several occasions. The Communists will probably bolt if the others agree to anything

short of complete withdrawal. Moreover, the Organization of Liberals and Leftists has let it be known that it will bring down the government in the near future regardless of the base issue. As a contingency, the base commander at Keflavik has provided extensive briefings for the leaders of the opposition Independence Party, as well as for Agustsson, who may not be in the government when real negotiations start.

If the government falls, the successor would probably be made up of the opposition Independence and Social Democratic parties plus the Liberals and Leftists. The Progressives and, of course, the Communists would be excluded.

Agustsson is doubtless aware of these possibilities and hopes to return from Washington with something tangible to boost his party's image. He recently asked the US Embassy to seek the money to cover the cost of his party's "non-negotiable" demands—separation of civilian and military facilities at Keflavik Airport, restriction of the base TV signal, and more jobs on the base for Icelanders. Agustsson may want to nail down such "minimum" concessions now, knowing that the price is likely to drift upward if subsequent negotiations include his coalition partners. Any concessions he is able to extract next week will benefit the Progressives no matter what happens later.

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## **SPAIN: THE STRAIN IS PLAIN**

The current spate of rumors about impending cabinet changes has heightened political tensions in the country. This speculation was sparked by the government's intractable approach to its dealings with key institutions. Rising discord between church and state, for example, has centered on the attempts of the Council of Bishops to formulate a policy statement on future church-state relations. Last December, the bishops approved in principle a watered-down version of a draft that would have severed the close ties between the two. Even in its present version, the document is unacceptable to conservative government and church officials.

The present document calls for revision of the 1953 Concordat between the Vatican and the Franco regime. It would also end government subsidies to the church and government participation in naming bishops. It calls for legal changes

to permit clergymen to cease serving in official government bodies, such as the national legislature. It expresses church concern with the state's punishment of political dissenters.

Because of government opposition, the document has not yet been finally adopted, and it stands little better than a fifty-fifty chance of being published in its present form. Just after the bishops adjourned, Vice Premier Carrero Blanco accused the church hierarchy of ungrateful disloyalty to Franco, and Franco himself in his year-end speech cautioned the church. Foreign Minister Lopez Bravo went to Rome last week to discuss church-state tensions with Pope Paul.

The government has similarly antagonized the legal profession. Last month, it vetoed five candidates for election as officers of the highly respected Madrid Bar Association. Although it

### **A Discussion of Church-State Tensions**



**Pope Paul VI**



**Foreign Minister Lopez Bravo**

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was generally conceded that the government-favored candidates would win, the contest aroused such political interest that the government exercised its prerogative of vetoing the five. All the other candidates then resigned in protest, in effect canceling the election. The government apparently had hoped both to discourage the bar association from selecting anti-Franco officers and from becoming a forum for political discussions. The result has been the alienation of many staunch government supporters in the legal profession throughout the country.

The discontent in Spanish universities over stringent regime measures to control student protests creates further problems for the government. The serious confrontation that appeared likely at the beginning of the school year has not yet materialized, although various departments in the universities are closed. Sporadic student protests involving over-crowding, cost-of-living rises, and government controls continue.

These tensions will rise unless the regime takes a more constructive attitude. If the government persists in its present adamant stance, it will only make matters more difficult for the government to adjust to pent-up pressures for change after the caudillo departs. [REDACTED]

extra-parliamentary cabinet less formally tied to a bloc of parties, but there are serious obstacles to both.

The key to the current deadlock is the centrist Catholic People's Party, the nation's second largest and a participant in every government since 1945. Without its collaboration, neither the right nor the left can achieve a parliamentary majority or expect to sustain a minority government. Although the party retains its pivotal position, it was badly shaken by severe losses in November and is hampered by internal discord. A swing to the left in support of a "progressive" coalition is distasteful to the party's moderate majority who, ideological misgivings aside, are reluctant to become an auxiliary of the Labor Party. Conversely, the Catholic left wing has adamantly refused to serve in tandem with the conservative Liberal Party.

The Catholics may eventually be persuaded to support a minority coalition of the left or to participate in a weak minority government of the three confessional parties, but both possibilities appear remote. The party sorely needs a period of recuperation in which to bind up wounds and reassess strategy. It clearly prefers an extra-parliamentary interregnum, but Labor opposition to this kind of solution looks insurmountable.

## THE NETHERLANDS: IMPASSE

Recent attempts to form a majority government have failed, and the politicians are somewhat glumly speculating that a return to the polls by early 1974 will be required.

Political fragmentation in the Netherlands seems all but chronic, and it was aggravated by the inconclusive results of the election last November. All intervening efforts to piece together a governing majority have been stymied. Neither a left-center nor a center-right combination of parties has proved feasible. The Dutch may now turn to a minority coalition or an

One proposed way out of the stalemate is an early return to the polls. Such a move would be opposed by the Catholics, but would presumably be more attractive to Labor and the Liberals, both of whom registered gains last November. Accordingly, a growing number of politicians would keep the present caretaker government in place with the understanding that new elections be held in late 1973 or early 1974. Elections may help to resolve the impasse by sustaining the recent trend to political polarization. This would mean a further decline of the center parties, and this could foreshadow erosion of the Netherlands' steadfast friendship with the US. [REDACTED]

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summit results, and pointed to the benefits for all mankind of increased US-Soviet cooperation.

Subsequent commentary in Soviet media and by Soviet officials has been similarly mixed. On 27 December, for instance, a *Pravda* editorial did not criticize US policy on Vietnam, but stressed the policy of detente with the West, including the US. On 5 January, *Pravda* carried an article by Soviet publicist Yuriy Zhukov that charged "hawks" in the US were bent on using international detente to subvert the socialist countries. In private conversations, various Soviet officials have picked up Brezhnev's theme that the development of US-Soviet relations will depend on an improvement in the Vietnam situation.

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## US-USSR: THE HEAT STAYS LOW

Over the past several weeks, Moscow has let it be known that it is not entirely happy with US-Soviet relations, and not just because of Vietnam. Soviet media have been sharply critical of US actions in Vietnam, but they have also reintroduced more general anti-American themes. They are again stressing poverty, racism, and crime in a "sick" American society. Soviet officials have suggested disappointment at the way US-Soviet relations have been developing. Nevertheless, from Brezhnev down, the Soviets have been careful to balance their negative remarks with statements that international tensions are easing and that good US-Soviet relations are most valuable.

Brezhnev's speech at the USSR's 50th anniversary on 21 December set the tone. Brezhnev called the Vietnam war the "dirtiest" in American history, condemned Washington for its "barbarian" acts, and said that as far as US-Soviet relations were concerned "much would depend" on resolution of the Vietnam conflict. He set these remarks off with some unusually positive ones on the general state of US-Soviet relations. He noted the "realistic" foreign policy being pursued by the US in areas other than Vietnam, defended the

in addition to Vietnam, they are concerned about the US attitude toward economic agreements—particularly the large oil and gas projects in Siberia—and the US position on SALT.

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Through all this, the Soviets have been careful to refrain from personal attacks on President Nixon and have stressed they favor improvement in US-Soviet relations.

Moscow thus seems to be saying that, Vietnam aside, it would like to see more rapid progress in bilateral negotiations, particularly on economic issues. In this regard, Moscow may be nervous about the recent changes in the US Government. Officials in the Soviet Foreign Trade Ministry, for instance, recently expressed uncertainty to US Embassy officers over the replacement of several officials with whom they had been dealing. Whatever the combination of factors involved, the measured way in which the US has been handled indicates that despite some uneasiness, there has been no fundamental change in Moscow's pursuit of detente with the US.

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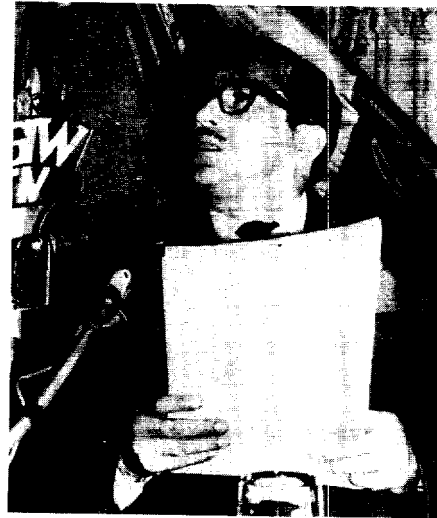
### GUATEMALA: GOVERNMENT CANDIDATES

After months of debate within the government, President Arana has formally announced his choices to run for president and vice president in the election next year.

The government's standard-bearer will be General Kjell Laugerud, a 43-year-old officer who served as minister of defense. Laugerud is a fervent anti-Communist and takes a tough line on terrorism and insurgency. Although he is considered a friend of the US, he is an extreme nationalist, and this could make him more difficult to deal with than Arana. The vice presidential candidate will be Mario Sandoval, president of Congress and leader of the rightist National Liberation Movement, the dominant party



**General Kjell Laugerud**  
*An ardent nationalist*



**Mario Sandoval**  
*A taste for intrigue*

in the government coalition. Although capable and hard-working, Sandoval has a taste for [redacted] intrigue. He has long advocated the use of extra-legal methods in dealing with the Guatemalan left.

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The new demonstration of unity on the right and the inclusion of Sandoval on the ticket will undoubtedly spur the divided leftist opposition parties to agreement on a single leftist presidential candidate. Among those prominently mentioned are Manuel Argueta Colom, the mayor of Guatemala City, and Christian Democratic leader Rene De Leon Schlotter. Since both of these would probably be unacceptable to the Guatemalan military, the leftists may in the end look for a candidate among moderates within the military. [redacted]

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## CHILE: NEVER A DULL MOMENT

The Allende government's new moves to control food distribution have set off a political brouhaha and raised military hackles.

On 10 January, Finance Minister Flores announced far-reaching government controls over the production, distribution, and retail sale of basic food products, most of them now in short supply and obtainable only on the black market. Flores termed the new system "programmed supply," but the opposition press and politicians called it rationing for government political purposes and claimed it constituted the first steps toward dictatorship. President Allende, apparently stung by the attacks, has turned to the newspapers and television to accuse opposition interests of having brought on Chile's economic woes, especially scarcities and black marketeering.

If the new measures are effectively implemented, they will strengthen the government's already substantial control over many phases of Chilean economic life while undermining the opposition's economic base. It is unlikely, however, that the Popular Unity administration is capable of the extensive and efficient organization that will be needed to execute all Flores' plans. Irate public reaction, including a general strike at Chile's largest copper mine, will also probably curtail application of the scheme. The new scheme does give the administration another tool to ensure better supplies for low-income and other groups from which it hopes to secure votes in the March congressional elections and, conversely, to deprive groups it cannot hope to recruit. The scheme can also be useful in strengthening the authority of the neighborhood supply boards that the Popular Unity is developing as a political instrument.

These events have brought to a head the frustration in the armed services over their role since joining the cabinet in November. Speculation is growing that the three military ministers are considering resigning.

[REDACTED]

Prats himself does not want to resign, insisting that his presence in the cabinet—even after the March elections—is necessary to ensure stability. He is probably motivated even more by personal ambitions that make unpalatable a return to purely military responsibilities after less than eleven weeks as interior minister. He does, however, value the appearance of backing from all the military and reportedly joined the other service chiefs and military ministers in confronting Allende last week over Flores' surprise announcement.

The President spent little time in trying to mollify the officers. He reminded them that they knew his was a Marxist government when they agreed to join the cabinet.

The military is in a dilemma over its growing identification with—and dwindling voice in—a controversial government. Some officers favor withdrawal; this is balanced by a feeling of responsibility for guaranteeing free elections in March. Some officers also fear that, if the military pulled out, its budget would suffer. Prats' personal predilection for power is an important factor, since he still commands the largest and most important service.

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## COSTA RICA: "PEPE" UNDER THE GUN

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President Figueres, the grand old man of Costa Rican politics, has come under vehement criticism for cronyism and corruption, and his off-the-cuff policy making has created a lack of confidence that could result in defeat for his governing National Liberation Party in the election next year.

Specifically, Figueres has been attacked for his efforts to make Costa Rica a tax haven for

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international investors—some of dubious reputation—for favored treatment of the Communist Party, and for allowing the establishment of the first Soviet embassy in Central America. His controversial approach to the Soviets has mushroomed into a major campaign issue, but it is the tax haven scheme, with its appearance of government for personal profit, that most disturbs Costa Ricans.

Robert Vesco, former head of Investors Overseas Services, is the primary mover in Figueres' tax haven scheme. Currently under indictment by the US Security Exchange Commission for defrauding American investors, Vesco sought a refuge and found Figueres' inclination for opportunistic financial dealing an open invitation to shift his operations to San Jose. Figueres' announcement last August that he would establish an international financial district was met with immediate and widespread opposition, and the press had a field day speculating about alleged shady deals between Vesco and the financially strapped President. In the face of such opposition, Figueres began immediately to dissociate himself in public from the tax haven scheme. Last October his reply to critics was as expected, disavowal of the particular proposal but not of the idea. He ridiculed his opponents, misled his supporters, and managed to leave everyone thoroughly confused about where the government stood on the issue.

Fearing that he had not sufficiently calmed his critics, Figueres tried a new tactic. Supporters of the tax haven scheme began leaking rumors to the press of large investments in bonds "which would allow the government's autonomous agencies to pay their Christmas bonuses," and of Vesco's purchase of an additional \$5 million in bonds to help the nearly bankrupt public water agency. Despite these diversions, the criticism has not abated, and there are indications that Figueres' connections with Vesco are causing a rift in his party.

Party youth leaders have antagonized central committee members by filing a "contrabandings" lawsuit against Vesco for bringing materials through customs without complying with inspection or tax laws. The assembly has launched a

full-scale investigation into Vesco's activities. Party leaders, including presidential candidate Daniel Oduber, are concerned that Figueres' financial dealings may be leading to some erosion of the party's traditional rural power base—a constituency that it must have if it is to defeat a united opposition next year. The challenge for Oduber, who needs Figueres' backing, is how to dissociate himself from the administration's poor record without openly breaking with the President.

The administration's involvement with Vesco has naturally provided the opposition with a ready target. But more importantly, the Vesco affair reflects a mood of public concern that goes deeper. The country at large is more disturbed about government morality than at any time in memory, and this concern will be the key issue as the political campaign unfolds. [REDACTED]

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### URUGUAY: THE MILITARY ROLE

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President Bordaberry's plan to appoint military officers to the top jobs in some autonomous state enterprises is likely to run into trouble when he submits such nominations for congressional approval. Civilian politicians have indicated reluctance to share their political perquisites with the military, especially in the case of state agencies that are a major source of patronage jobs.

Among the agencies to which military men could be appointed are those controlling banks, the telephone and electric systems, railways, and public transportation in Montevideo. These concerns have been buffeted by frequent strikes and rising inefficiency, and it is conceivable that a bit of military discipline could solve some of their problems. More importantly, Bordaberry wants to put more military men into state agencies to satisfy the armed forces' increasing interest in direct participation in government and fend off military demands for a greater role in policy decisions at the national level. The military has responded favorably to Bordaberry's overture, but the political factions in congress might unite to veto such appointments in an effort to keep the military out of a sector they have always been able to control. [REDACTED]

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## SENEGAL: ROCKY ROAD AHEAD

The political supremacy of Catholic President Leopold Senghor over predominantly Muslim Senegal will win him his fourth term in the elections on 28 January. There is, however, serious opposition to Senghor's authority, including the growing hostility of powerful Muslim leaders and insurgency within the President's own party. Senghor's Muslim opponents did not put up a candidate to oppose him, but they may urge a



President Senghor

boycott of the elections in order to embarrass the President and demonstrate their influence.

Senghor was able to count on Muslim support and votes prior to the death in 1968 of his close friend who was then the leader of the Mourides, the wealthiest and most powerful Muslim brotherhood. The new Mouride leadership, under Caliph Abdou Lahat M'Backe and his politically astute spokesman in Dakar, Cheikh M'Backe, is hostile to Senghor. Various initiatives by Senghor since last spring seeking accommodation with the Mourides all ended in failure. In recent months, other major Muslim groups have begun to join forces with the Mourides in what is emerging as a broad Muslim opposition. At present, this coalition is still a fragile one.

Cheikh M'Backe is working to strengthen it and is seeking a respected Muslim figure to head it.

The Muslim leaders generally see Senghor's attempts to unify and modernize the country as a direct threat to their own spiritual and temporal authority. They oppose him on a variety of social and political issues, including a new legal code on family matters like marriage and divorce that went into effect this month. The regulation of such matters has always been the exclusive right of Muslim holy men. The Mourides also hold Senghor responsible for Senegal's weak economy. Severe droughts coupled with poorly administered government agricultural programs have reduced the total production of peanuts, Senegal's major export crop, every year except one for the last six years; this year's crop will be one of the smallest ever. The Mourides control about 70 percent of Senegal's peanut production.

Senghor also faces troublesome problems within his own party, the Senegalese Progressive Union, where younger party and government members have been trying to oust aging regional bosses loyal to Senghor. The eighth party congress, held last month, did nothing to resolve party tensions. It did manage to postpone a showdown by adding several younger men to top party jobs while retaining all the old stalwarts as well. The congress named Abdou Diouf, Senegal's competent but colorless prime minister, to the second highest party post, providing the most persuasive indication so far that he is—as of now—Senghor's choice as successor.

The boost for Diouf and the primacy given to short-term advantage in the way the party congress was run suggest that Senghor may be contemplating retiring from the political scene at or before the end of his new five-year term. In 1969, he told the US ambassador that he expected to be out of politics when he was 70—he is now 66—and hoped to conduct a testing period before then during which a successor would emerge. The President has increasingly turned his domestic duties over to Diouf in order to devote the presidential energies to regional and world issues.

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### Zambia-Rhodesia

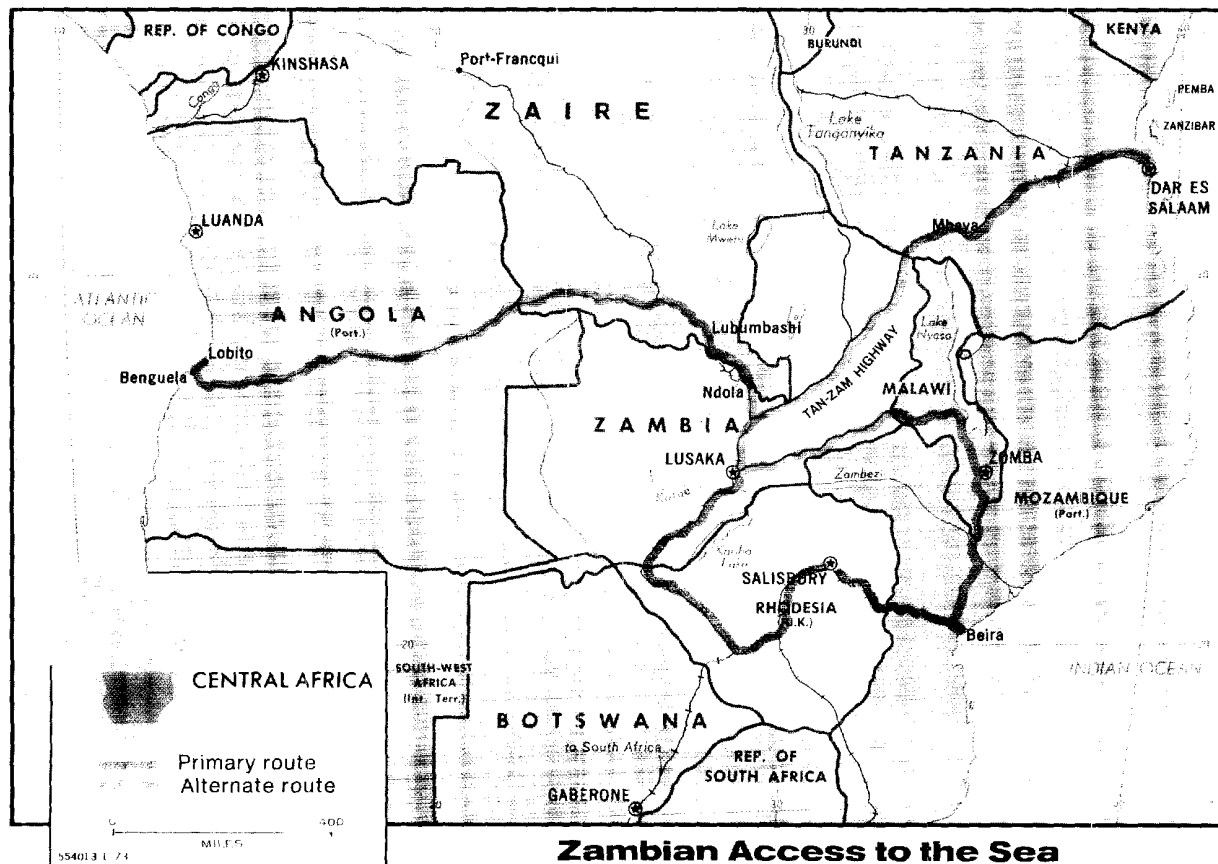
#### WHO'S BLOCKADING WHOM?

A flurry of attacks in December and early January by Zambia-based Rhodesian insurgents triggered moves and countermoves by the Rhodesian and Zambian governments. These have escalated into a full-blown economic war. Each side appears confident that it can prevail. A long siege would have a serious impact on both countries, particularly Zambia which is taking the biggest risks.

Last week, Rhodesian Prime Minister Smith announced that, except for Zambian copper, Salisbury was closing the border until Lusaka halted guerrilla operations from Zambian ter-

ritory. Rhodesian railways normally carry almost half of Zambian copper as well as two thirds of Zambian imports, and Smith apparently intended to retain the earnings from copper shipments. Zambian President Kaunda quickly reaffirmed his strong support for southern African nationalists and ordered the immediate rerouting of copper exports away from Rhodesia.

Because copper is the source of one half of Zambia's revenue and almost all of its foreign exchange, Kaunda is taking a big gamble. He appears confident that Zambia's foreign trade can be readily diverted. When Rhodesia blocked



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Zambian petroleum imports in 1966, Zambia began to reorient its economy away from dependence on Rhodesian goods and transport facilities, and government officials believe that the program has progressed to the point that a complete break can be made. They point to recent improvements in alternate transport routes, particularly an improved 1,000-mile road to Dar es Salaam. The port of Dar es Salaam can probably handle the copper exports, but would have difficulty handling Zambia's imports. None of the possible alternate routes through Angola or Malawi-Mozambique can handle a massive increase right now. On top of this, Zambia is in deep financial trouble as the result of the slump in world copper prices. The government cannot afford the increased transportation costs of using these routes or of stockpiling large amounts of copper over a long period.

Having struck a defiant pose, Kaunda is unlikely to back down quickly even when the economic realities begin to settle in, and his government is pushing hard for international support. Lusaka has already approached several Western governments to bring diplomatic pressure on Rhodesia, and a Zambian request for a UN Security Council session may be in the offing. Kaunda is also likely to seek economic assistance as the impact of the border closing intensifies.

A complete stoppage of Zambian imports and exports through Rhodesia will mean about a five-percent reduction in Rhodesia's foreign exchange earnings. This will worsen Rhodesia's shortage of foreign currency—already the most telling effect of the long-standing international sanctions against Salisbury. Now, however, white Rhodesians appear confident that they can weather a prolonged blockade better than the Zambians, and Smith has led them to believe that Zambian support for terrorist raids must be stopped regardless of the cost.

Although there appears to be virtually no chance of a compromise, Smith may yet respond to pressure from Pretoria or Lisbon, where initial reactions to the blockade were distinctly negative. Portuguese authorities are particularly concerned over the loss of earnings from Zambian goods

transiting the port of Beira in Mozambique, and they have expressed willingness to assist Zambian efforts to use alternate land routes to that port. South Africans are discomfited over the interruption of their substantial trade with Zambia and are seeking aircraft to carry needed mining supplies. Both the Portuguese and South Africans have expressed fears that a prolonged economic crisis might make Kaunda more receptive to Communist inroads and harden the opposition of moderate black Africans to all the white governments in southern Africa.

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### ZANZIBAR: BACK TO THE PARTY

President Aboud Jumbe, who is finally emerging from the shadow of his assassinated predecessor, is seeking to trim the power of the ruling Revolutionary Council by reviving the long-dormant Afro-Shirazi Party, constitutionally the island's "supreme authority." Jumbe's predecessor, the late Abeid Karume, shunted the party into the background and ruled through the council, a hodgepodge of army officers, radicals, and hooligans swept into power by the 1964 revolution. The 27-man council was only established as an interim body for the immediate post-revolution period, but by the time of Karume's assassination in April 1971, the council had become firmly entrenched. It was and is thoroughly corrupt, inefficient, and divided.

Shortly after taking over, Jumbe moved to quiet public discontent over a number of major problems created by Karume and the council, such as chronic food shortages and mismanagement of development projects. He also announced plans for more housing and for expanded health and education services. He has since sought, with some success, to curb the excesses of the council, which has long reflected Karume's brutal and arbitrary rule.

In December, Jumbe held a party congress—the first since the 1964 revolution—which

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confirmed his positions as president, finance chairman of the party, and chairman of the council. He was given undisputed authority to appoint and relieve party officials, heads of government departments—including the army and police, and members of the council.

The congress adopted a new constitution, expanding the party structure and giving it power over all government departments. The most important new provision, however, was one establishing a nine-member policy-making Political Committee. Heretofore, policy has been established by the Revolutionary Council. Jumbe obviously intends to bypass the council in establishing policies and priorities rather than abolish it outright.

Jumbe will have to move cautiously. He has incurred the enmity of several council members, including the deputy army commander and the development chairman. Jumbe will probably not carry out any major shakeups until he has adequate support particularly within the police and the army. The extent of that support should become apparent when he announces the membership of the new Political Committee.

shot after the coup attempt in July 1971, were Berbers. This is bound to nourish bitterness among the important Berber minority and particularly among Berber military officers, some of whom are said to have sworn to avenge the deaths of their fellow Berbers.

King Hassan has maintained personal command of the military and has refused to delegate any real authority to his immediate subordinates. In order to prevent another challenge to his rule from the military, the King is instituting major changes. He is fragmenting the command structure and reducing the size and capability of the defense establishment. He obviously meant the harsh punishment he dealt out last week to demonstrate his control over the military.

Meanwhile, the regime is also taking a tougher attitude toward restive students, teachers, and laborers. Security forces were quick to crack heads during a recent work slowdown at the port of Casablanca, and riot control units in unusually large numbers have been stationed at universities and secondary schools. Hassan probably plans to rely more and more on paramilitary units like these as he whittles away the regular military services.

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### MOROCCO: THE KING GETS TOUGH

The execution last week of 11 air force officers and enlisted men convicted of attempting to assassinate King Hassan last August could well intensify discontent in the armed forces.

Moroccans had expected the King to show clemency, and many expressed shock when the executions were carried out on the eve of a Muslim holy day when the King usually grants a number of pardons. Most of those executed last week, as well as most of the putschists summarily



The Firing Squad Prepares

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## **TURKEY: PROSPECTS FOR REFORM**

The tempo of politics is picking up as parliament is finally getting around to considering a package of controversial reform proposals and as civilian and military leaders stake out positions for the elections this year.

Twenty-two months ago, military commanders forced out the conservative Justice Party government, which had been ineffectual in curbing the mounting violence of urban guerrillas. Another civilian government was installed, after the military let it be known it would take power directly unless law and order were restored and economic and social reforms were enacted. By martial law, widespread arrests, and military tribunals, the terrorists have been brought largely to heel. The government has made only limited progress on the reform program, however, causing some military circles to grumble about the "politics-as-usual" attitude in parliament.

With the military prodding them, the legislators have now worked out a timetable for the consideration of reform proposals, which include measures to reform agriculture, education, elections, and the judicial system. There is an expectation that most will be dealt with in the next few months. Failure to do so may well jeopardize the parliamentary elections set for October.

Passage of the reforms will be difficult, however, because the Justice Party, which has a slight majority in the national assembly, regards some of them as leftist-inspired.

Turkey's parliament must also elect a new president in March. As yet no front-runner has emerged. Trial balloons have been floated on behalf of several men, including the current chief of the Turkish General Staff, Faruk Gurler. There are signs that the choice will not be easy, and some influential military officers are supporting the idea of a constitutional amendment to prolong the term of the incumbent, Cevdet Sunay. This might prove attractive as the least disruptive action in a period of political ferment.

Although most Turks are pleased that martial law—still in effect in 11 provinces—has restored order and security, there is restlessness in some circles about its duration and administration. Indeed, the left-of-center Republican Peoples Party has strongly criticized martial law, and the press and the country's intellectuals have demanded its quick end. Despite the complaints, 25X1 the military-backed government of Prime Minister Melen will probably ask parliament to extend martial law in late January.

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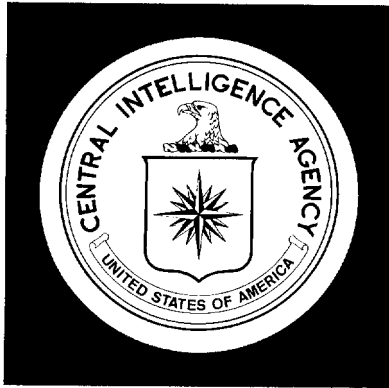
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DIRECTORATE OF  
INTELLIGENCE

# *WEEKLY SUMMARY*

## *Special Report*

*Soviet Farm Problems Slow Economic Pace*

**Secret**

Nº 45

19 January 1973  
No. 0353/73A

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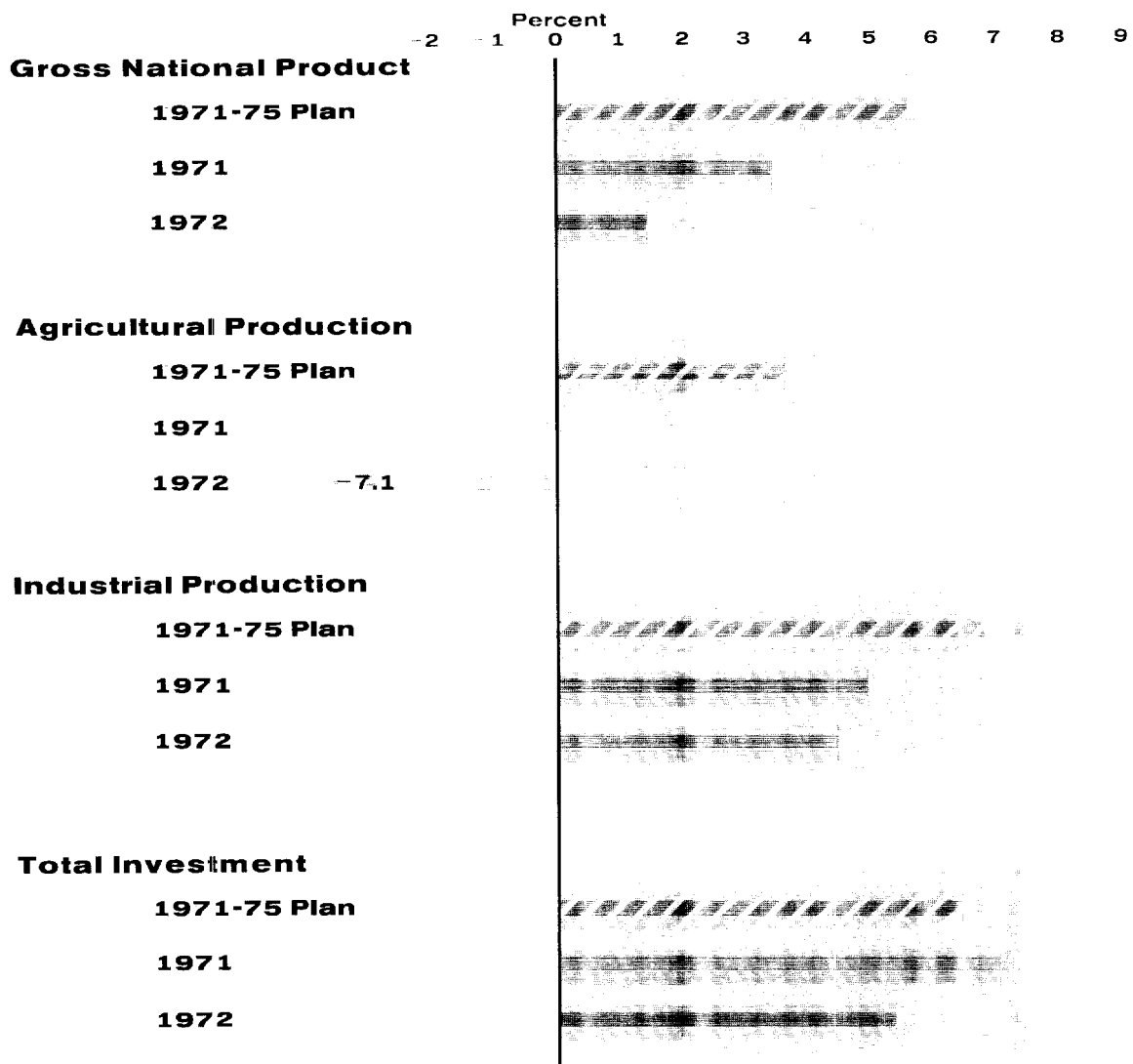
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## Selected Indicators of Soviet Economic Performance

Actual average annual increase 1966-1970

Actual average annual increase

Planned average annual increase



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Special Report

- 2 -

19 January 1973

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Soviet economic growth slowed drastically in 1972 as gross national production grew by only 1.5 percent, the lowest rate since World War II. An abrupt decline in farm output was largely responsible for the slowdown, but rates of growth in most major sectors of the economy were below those achieved in the recent past. The farm setbacks led the leadership to purchase unprecedented quantities of grain from the West. The lingering effects of the poor agricultural year as well as serious construction lags have forced significant changes in the 1973 plan, although the regime apparently hopes that a sharp recovery in farm output and tightened control over the investment program will salvage most of the original Five-Year Plan (1971-75). Consumer interests have held their own in the battle for investment funds. Prospects look poor for the fulfillment of plan goals, especially in agriculture. The key to the industrial goals, more rapid technological progress, still eludes the Soviets.

#### **Agriculture Bows To Bad Weather**

Unusually poor weather last year throughout the growing and harvesting seasons caused a 7-percent drop in farm output, one of the worst setbacks in the past 20 years. Still, Soviet farm output had been rising steadily, so most crops last year, including grain, were larger than those in some of the relatively good years of the 1960s. The bad luck began in January when the crop on one third of the winter grain acreage was destroyed by extreme cold and inadequate snow cover. A large spring planting to compensate for the winter losses was thwarted by the "worst drought in 100 years" in European Russia. Record crops in Kazakhstan and Siberia staved off disaster. The crop there was late in ripening, and unseasonably wet weather led to harvest losses.

The most serious shortfalls in agricultural production were in grain and potatoes—the core

#### **In Better Times**





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of the Soviet diet and essential to the production of meat, milk, and eggs. Sugar beets and sunflower seeds, the primary source of vegetable oil in the country, also suffered from the bad weather. Lower output of some animal products such as milk and wool reflected both fodder shortages and the severe winter. Distress slaughtering of livestock in anticipation of feed shortages this winter may have been partly responsible for an increase in the supply of meat.

As the prospects for the grain harvest waned, the USSR bought grain. By early August, it had purchased about 25 million tons, mainly from the US. After weather conditions got worse and it became clear that there also would be a sharp shortfall in potato production, the Soviets bought more grain from a number of countries as well as 1 million tons of potatoes. All told their purchases of grain for delivery by mid-1973 reached about 29 million tons worth about \$2 billion. This amount is more than three times the

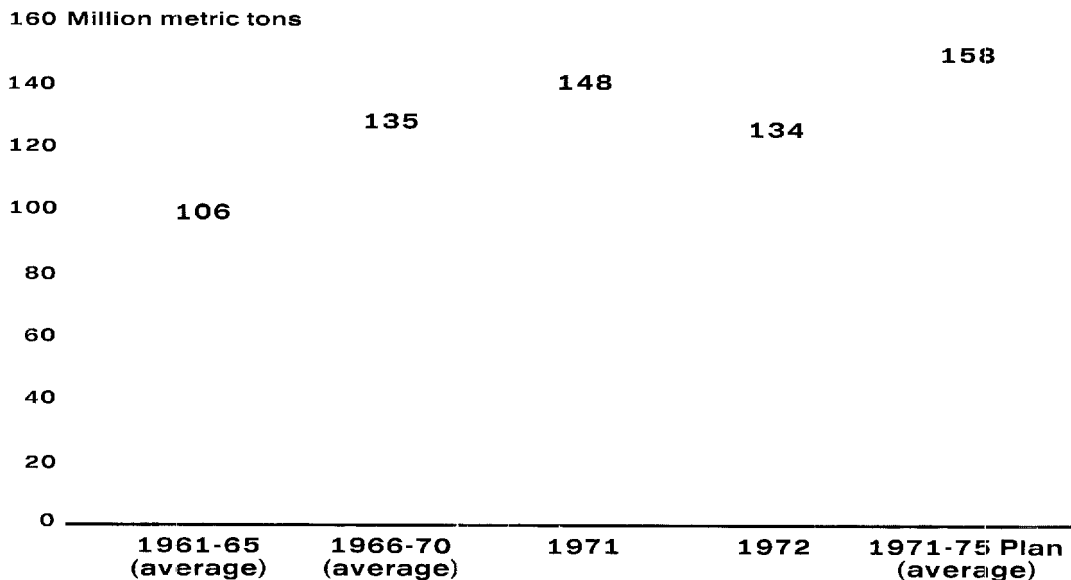
quantity imported the previous year and is equivalent to about one fifth of the Soviet grain crop in 1971.

The record purchases also reflect the rising demand for grain as animal feed. Since 1969, Brezhnev's program to provide the consumer with more meat and other livestock products has upset the fragile balance between the amounts of grain grown and consumed. While the quantity of grain used for food has remained virtually the same over the past decade, grain used for livestock feed increased by about 40 percent between 1968 and 1971. Even after two bumper harvests in 1970 and 1971, the Soviets bought about 8 million tons of grain worth nearly \$500 million between mid-1971 and mid-1972.

#### Industry Lags Too

In 1972, industrial growth fell to about 4.5 percent, the smallest annual increase since World

### USSR: Grain Production \*



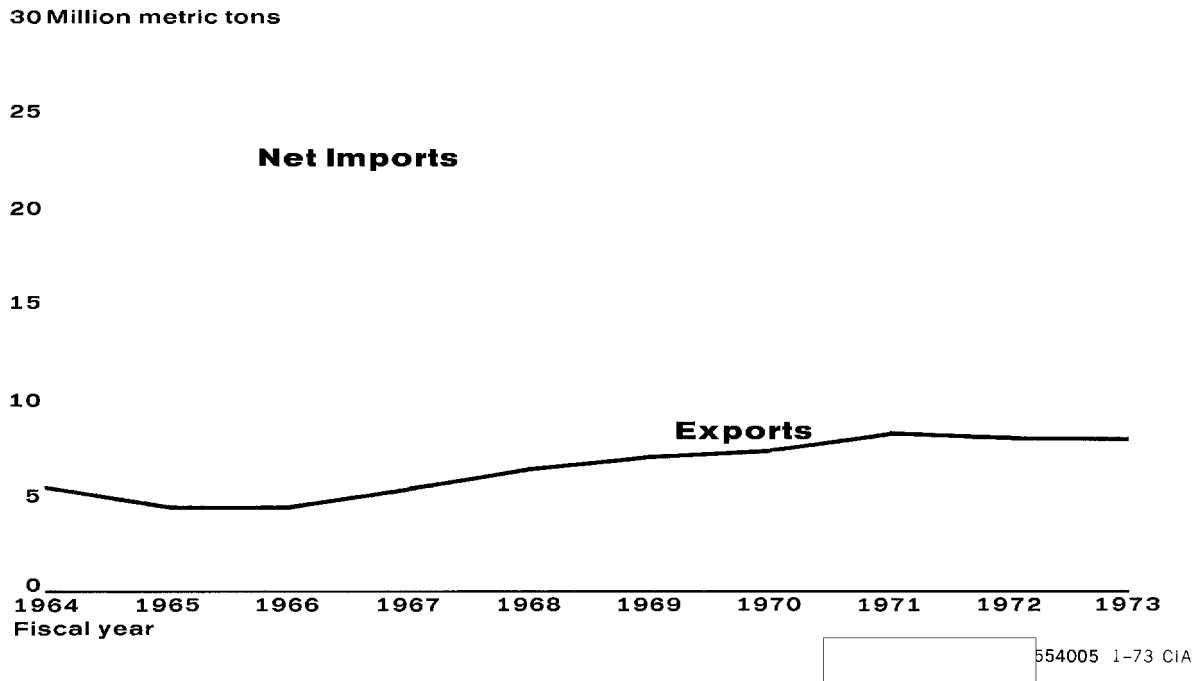
\* OER estimate of usable grain

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### USSR: Grain Trade



War II. The industrial slowdown could be traced largely to industry's failure to make planned productivity gains and to install the required amount of new plant and equipment—key factors in fulfilling the Five-Year Plan. The combined productivity of labor and capital in industry rose by less than .5 percent in 1971 and apparently did no better in 1972. The trouble in agriculture was another factor in the poor industrial performance. The harvest failure reduced the flow of agricultural raw materials to industry. Moreover, the emergency requirements of a larger than usual spring planting and the Brezhnev-directed campaign in the fall to save the harvest in Siberia and Kazakhstan diverted men and machinery from industry and caused transportation tie-ups in all sectors.

Although a number of industrial branches shared in the decline, a lag in the production of machinery and consumer goods had the greatest impact on industrial growth. Within the ma-

chinery category, there were shortfalls in the output of some producer durables—especially equipment for the chemical, petroleum, food, and light industries. Unsatisfactory growth in the two remaining components of the machinery category—military equipment and consumer durables—also contributed to its general decline. The output of military hardware grew at a very low rate, but it grew. Large reductions in the output of television sets and washing machines held back the production of consumer durables in general.

The poor performance in soft goods and processed foods can be attributed both to the shortage of agricultural raw materials and to construction difficulties. Although industrial materials generally kept pace with the plan schedule, there were notable weak spots. The oil and gas industries, for example, did not meet all of their goals, largely because of a failure to plan for sufficient replacement capacity to offset depletion in older producing areas.

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The investment program is in serious trouble. New projects readied for use in 1972 fell 5.7 billion rubles short of the planned 93.1 billion rubles, adding another 6 percent to the backlog of unfinished construction (10.5 percent had been added the previous year). Some of the same problems that hit industry also hurt investment—the diversion of resources to the agricultural sector and shortfalls in the output of key machinery items. The investment logjam may owe something to a longer run problem—the dilution of control over the allocation of investment funds, resulting in a wasteful dispersion of resources. The economic reform of 1965, which allowed more in-

vestment decisions at the local level, may be partly at fault.

### Consumers Suffer

Last year was a disappointment to the Soviet consumer. Per capita consumption rose by only 2.5 percent, about half the average annual rate of increase in the preceding six years. Food consumption increased hardly at all on a per capita basis. Consumption of soft and durable goods increased at about the same moderate pace as in 1971. The regime failed to follow through on part of the welfare package promised for 1972. The

1972 Industrial Performance			
Sector	Exceeds Plan (by more than 2.5%)	Meets Plan (within 2.5%)	Falls Behind Plan (by more than 2.5%)
Fuels and power	Coal	Electric power; oil	Natural gas
Ferrous metals		Steel; steel pipe; finished rolled steel	
Forest products and paper		Furniture; paper	
Construction materials		Cement; roofing slate	Construction glass
Chemicals		Plastics & synthetic resins Mineral fertilizer Chemical pesticides Soda ash Chemical fibers Tires Sulfuric acid	Caustic soda
Machinery	Instruments & means of automation Computers & calculating equipment Bulldozers	Main-line locomotives Trucks Passenger cars Tractors Excavators Watches Television sets	Petroleum equipment Food industry equipment Main-line freight cars Farm machinery Radios & phonographs Chemical equipment Light industry equipment Grain combines Tractor trailers Refrigerators
Soft goods		Linen & silk fabric	Cotton & wool fabric Knitted wear; leather shoes
Food industry	Meat; mixed feed	Butter	Fish; whole milk products Vegetable oil

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program included a rise in the minimum wage and various income tax cuts, which have been rescheduled for 1973.

Although sporadic food shortages were of concern to the populace during the second half of the year, none went hungry. Daily per capita food consumption amounted to about 3,000 calories. It took extraordinary steps to ensure that food supplies were adequate. In addition to the massive grain purchases from the West, potatoes and some vegetables were bought from Poland and East Germany. The government also did its utmost to extract potatoes and vegetables from the private sector by allowing prices in collective farm markets to rise dramatically and by other methods that amounted in many areas to forced deliveries. At the same time, the leadership launched a nationwide campaign to save bread, and rationed food sales selectively.

Nevertheless, there were some bright spots for the consumer in 1972. More meat was available and sales of some consumer durables like passenger cars and furniture increased significantly. In addition, almost 108 million square meters of housing were built in 1972 as in 1971, the largest amounts since the peak year of 1960. Even so, the average space available per person was about 85 square feet, about 15 percent below the minimum standard set soon after the Revolution.

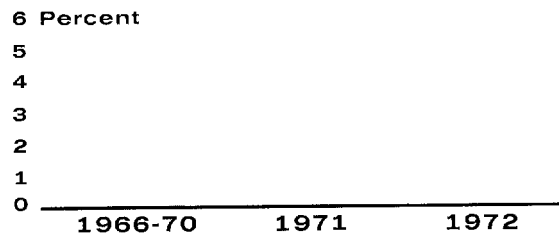
#### **Priorities Unchanged**

Faced with these setbacks, Soviet economic and political authorities grappled with the 1973 plan throughout the fall. The basic question was whether to stick with the 1971-75 plan priorities that placed consumer-related interests on a more equal footing with investment and defense—previously the heavily favored sectors. The leadership came to terms with circumstances by reducing many of the 1973 targets because of capacity limitations and raw material shortages. Nevertheless, the authorities seemed to regard last year as a temporary setback from which the economy could soon recover, and hope was held that the Five-Year Plan goals could still be met. In

### **USSR: Per Capita Consumption Average Annual Rate of Growth**

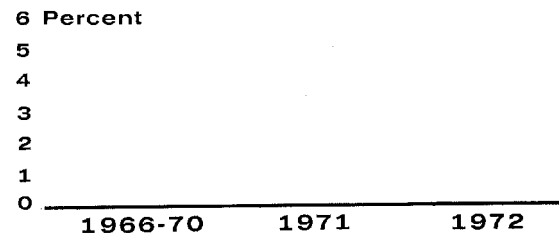
#### **Total Per Capita Consumption**

-1972 consumption grew at half the earlier rate



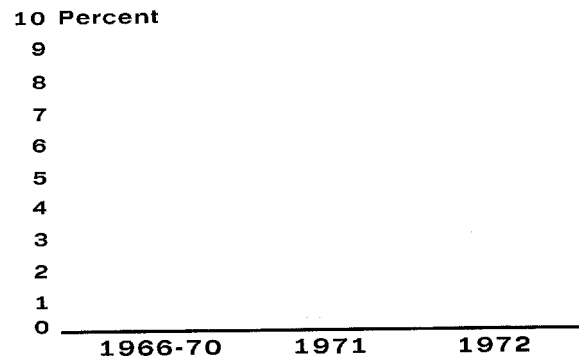
#### **Food**

-despite sporadic food shortages, none went hungry



#### **Durable Goods**

-durables provided some bright spots for the consumer



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the battle for investment funds, the consumer interests held their own.

The 1973 goals announced by State Planning Chief Baybakov and Finance Minister Garbuzov in December imply a growth in Gross National Product of about 7 percent. The planned recovery depends mainly on a 12.6-percent increase in farm output and an acceleration in industrial output. Goals for the oil and gas, consumer goods, chemical, and machinery industries were cut. Construction will be held at the 1971 level to allow for regrouping in this sector.

Since the revised plans will limit the increase in the supply of consumer goods and services, the planners intend to hold down wage increases. If successful, this policy will hold the growth in personal income to about 5 percent this year, the same growth rate planned for total retail sales. Based on past experience, however, it will be difficult to keep the growth of personal income within the planned targets because of the competition for workers in a tight labor market.



**Zaporozhet cars arrive in Moscow**  
*Consumer interests hold their own*

#### NEW GROWTH PLAN FOR 1973

##### Recovery in Farm Output Leads Sector Goals

(percentage growth)

	1972	Plan 1973
Industry	4.5	6.7
Construction	8.0	0
Agriculture	-7.1	12.6
Transportation and communications	4.2	5.7
Domestic trade	7.1	5.0
Services	3.7	3.8
GNP	1.5	7.1

##### Industrial Goals Below Original Targets

(percentage growth in output)

Branch of Industry	Original 1973 Plan	New 1973 Plan
Oil	8.7	7.5
Gas	9.2	7.7
Chemicals	10.7	8.5
Machinery	11.4	10.4
Soft goods	6.7	4.0
Processed foods	5.7	2.0

While incomplete, the investment data indicate no basic changes in priorities, but rather a program to rectify past errors and maximize the chances of attaining the original 1971-75 goals. First, the plan calls for a stringent limit on new project starts so that investment resources can be concentrated on projects "decisive to the fulfillment of the five-year plans." To this end, the growth in total investment in 1973 is to be held to 3.5 percent compared with the nearly 9 percent implied in the original plan. Secondly, more investment resources will be allocated to those parts of the economy where projects have been most behind schedule. The consumer-oriented sectors of the food industry and other light industries are scheduled to receive a generous volume of investment. Some of the increases are

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so large, however, that it is doubtful that they can be carried out without causing extensive confusion in the entire investment program.

### Outlook

Barring another farm failure, Soviet economic growth in 1973 almost certainly will be greater than in 1972, but the 7-percent goal probably cannot be attained. The consumer will continue to experience sporadic shortages of potatoes and other vegetables before the next harvest, but tighter controls over distribution and more imports of agricultural products should help him over the rough spots. Meat consumption, however, probably will level off or decline because of the recent reduction in livestock herds and shortages of feed. Last year's grain purchases will strain the Soviet hard-currency payments position this year. About 24 million tons of grain worth about \$1.5 billion remain to be delivered. The debts probably will be paid through a combination of gold sales, credits from the US, and short- and medium-term credits available in Europe. In the longer run, if average weather prevails over the next three years, agriculture should rebound substantially permitting Gross National Product to grow by some 5 or 6 percent during each of the next three years. Even so, the average annual rate of growth in the first half of the 1970s would be significantly less than the rate in 1966-70.

The prospects do not look good for the attainment of the major Five-Year Plan goals. The harvest results of 1971-72 almost certainly doom the agricultural goal of a 3.7-percent annual increase. The planned annual average of 158 million tons of usable grain (195 million tons on a gross basis) in 1973-75 is virtually unattainable. In order to hit this target, the Soviets would have to harvest an annual average of 173 million tons in the period. This would be 39 million tons more than they gathered in 1972. Prospects are far from bright for the 1973 crop. By the end of the

fall sowing, only about 80 percent of the planned area had been sown to winter grains—a record shortfall. Given only an average winterkill, the Soviets will be in as poor a position as last year when spring arrives. The meat production targets for 1975 are realistic only if livestock inventories are not drastically reduced this winter and more grain is imported for feed. Even if the meat goal is met, supply will fall far short of demand, increasing consumer discontent.

Many of the industrial goals for 1971-75 are more modest than in previous plans, but a number of problems threaten their realization.

- Continued agricultural difficulties will restrict the supply of raw materials to industry.

- The acceleration in industrial output planned for 1974-75 depends upon the completion of major investment projects. Chronic construction lags worsened in 1971 and 1972, and the solutions planned are likely to be ineffectual.

- The 1971-72 targets for economizing the use of industrial raw materials fell by the wayside. The Five-Year Plan in industry is a taut one and depends upon these economies to achieve a balance between input and output.

- The most critical shortcoming has been the failure to come close to productivity goals. Technological progress was to be the key to higher productivity, but enterprises and ministries have been slow to adopt new processes and products. In 1973, the Soviets will again try their time-worn (and generally ineffective) remedy, further centralization.

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All in all, the Five-Year Plan in both agriculture and industry seen in the perspective of last year's setbacks looks all but unattainable.

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